

# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
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September 19, 2006

Ms. Sherry Finlayson, Director  
Financial Analysis/Reimbursement  
Conway Hospital  
Post Office Box 829  
Conway, South Carolina 29528-0829

Re: AC# 3-KNC-J2 – Conway Hospital Long Term Care Services  
d/b/a Kingston Nursing Center

Dear Ms. Finlayson:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**CONWAY HOSPITAL  
LONG TERM CARE SERVICES  
D/B/A KINGSTON NURSING CENTER  
  
CONWAY, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2003  
AC# 3-KNC-J2**

**AGREED-UPON PROCEDURES REPORT  
  
ON CONTRACT  
  
FOR  
  
PURCHASE OF NURSING CARE SERVICES  
  
WITH  
  
STATE OF SOUTH CAROLINA  
  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 15, 2006

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Conway Hospital Long Term Care Services d/b/a Kingston Nursing Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Conway Hospital Long Term Care Services d/b/a Kingston Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Conway Hospital Long Term Care Services d/b/a Kingston Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Conway Hospital Long Term Care Services d/b/a Kingston Nursing Center dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
August 15, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**KINGSTON NURSING CENTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-KNC-J2

	10/01/03- <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$135.73
Adjusted Reimbursement Rate	<u>133.82</u>
Decrease in Reimbursement Rate	\$ <u><u>1.91</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

**KINGSTON NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2003 Through September 30, 2004  
AC# 3-KNC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 84.57	\$63.18	
Dietary		19.45	11.76	
Laundry/Housekeeping/Maintenance		<u>15.98</u>	<u>10.49</u>	
Subtotal	\$ <u>-</u>	120.00	85.43	\$ 85.43
Administration & Medical Records	\$ <u>-</u>	<u>25.58</u>	<u>13.25</u>	<u>13.25</u>
Subtotal		145.58	<u>\$98.68</u>	98.68
<u>Costs Not Subject to Standards:</u>				
Utilities		5.09		5.09
Special Services		.04		.04
Medical Supplies & Oxygen		6.36		6.36
Taxes and Insurance		1.81		1.81
Legal Fees		<u>.08</u>		<u>.08</u>
<b>TOTAL</b>		<u>\$158.96</u>		112.06
Inflation Factor (4.70%)				5.27
Cost of Capital				24.81
Cost of Capital Limitation				(8.32)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$133.82</u>

**KINGSTON NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-KNC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,046,483	\$ 561,147 (1)	\$ -	\$2,607,630
Dietary	717,226	-	117,540 (1)	599,686
Laundry	88,669	-	29,032 (1)	59,637
Housekeeping	174,360	5,471 (1)	-	179,831
Maintenance	281,644	-	28,472 (1)	253,172
Administration & Medical Records	519,707	268,979 (1)	-	788,686
Utilities	98,205	58,678 (1)	-	156,883
Special Services	193,871	-	192,736 (1)	1,135
Medical Supplies & Oxygen	177,190	18,768 (1)	-	195,958
Taxes and Insurance	47,383	8,440 (1)	-	55,823
Legal Fees	1,610	947 (1)	-	2,557
Cost of Capital	456,666	201,999 (1)	-	765,022
		<u>106,357 (2)</u>		
Subtotal	4,803,014	1,230,786	367,780	5,666,020



**KINGSTON NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-KNC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	14,389	-	14,358 (1)	31
Nonallowable	978,342	-	857,327 (1) 106,357 (2)	14,658
Total Operating Expenses	<u>\$5,795,745</u>	<u>\$1,230,786</u>	<u>\$1,345,822</u>	<u>\$5,680,709</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
Total Beds	<u>88</u>			

**KINGSTON NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-KNC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	General Services	\$ 561,147	
	Housekeeping	5,471	
	Administration & Medical Records	268,979	
	Utilities	58,678	
	Medical Supplies	18,768	
	Taxes and Insurance	8,440	
	Legal	947	
	Cost of Capital	201,999	
	Other Equity	115,036	
	Dietary		\$ 117,540
	Laundry		29,032
	Maintenance		28,472
	Special Services		192,736
	Ancillary		14,358
	Nonallowable		857,327
	To adjust cost centers to amounts per the as-filed Medicare cost report HIM-15-1, Section 2300		
2	Cost of Capital	106,357	
	Nonallowable		106,357
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,345,822</u>	<u>\$1,345,822</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**KINGSTON NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-KNC-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,752,432	1,752,432	
Improvements Since 1981	577,318	263,931	
Accumulated Depreciation at 9/30/02	<u>(1,378,306)</u>	<u>(608,306)</u>	
Deemed Depreciated Value	951,444	1,408,057	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	53,376	78,992	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	53,376	78,992	
Depreciation Expense	410,595	245,254	
Amortization Expense	-	-	
Capital Related Income Offsets	(23,195)	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	440,776	324,246	\$765,022
Total Patient Days (Minimum 96% Occupancy)	<u>15,639</u>	<u>15,196</u>	<u>30,835</u>
Cost of Capital Per Diem	\$ <u>28.18</u>	\$ <u>21.34</u>	\$ <u>24.81</u>

**KINGSTON NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-KNC-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.79	\$N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$21.34</u>
Weighted Average Reimbursable Cost of Capital Per Diem*		\$16.49
Cost of Capital Per Diem	<u>24.81</u>	
Cost of Capital Per Diem Limitation	<u>\$(8.32)</u>	

\*  $-\left[(11.78 \times 15,639) + 324,246\right] / 30,835$

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